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141457Z Nov 03

UNCLAS ANKARA 007103

SIPDIS

SENSITIVE

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TAGS: [EINV](#) [ENRG](#) [ECON](#) [PREL](#) [TU](#)

SUBJECT: ENRON'S RESPONSE TO BOT PROBLEMS

REF: A. ANKARA 6696

[B](#). ANKARA 6612

[C](#). ANKARA 6423

This cable is sensitive but unclassified, not for internet distribution.

[1](#)1. (SBU) Summary. ENRON's lawyer has forwarded a proposal to AK Party Vice-Chair Reha Denemec in an attempt to reach a compromise with the Ministry of Energy (MENR) over its BOT project. ENRON continues to demand an unconditional license and appears anxious to resolve the dispute over electricity prices to avoid further investigations. ENRON's offer to lower prices gradually upon reduction of gas prices by BOTAS will put pressure on other BOT companies to do adopt a similar approach. However, with local elections looming, the GOT's eventual response will be overshadowed by politics. End Summary.

[1](#)2. (SBU) On November 7, ENRON's lawyer told econoff that he presented Reha Denemec, AK Vice-Chair and close advisor to Prime Minister Erdogan, with a proposal that should form the basis of eventual discussions between the GOT and ENRON on how to resolve this BOT project's problem (reftels). Instead of launching formal negotiations with the Energy Ministry and the Energy Market Regulatory Authority (EMRA), ENRON has decided to raise the issue with the Prime Minister's advisor because the MENR and EMRA continue to stall. Denemec reportedly promised ENRON that he would intercede with the Ministry of Energy, and ENRON is awaiting an informal response. ENRON's proposal was faxed to EUR/SE.

[1](#)3. (SBU) As reported in reftel C, ENRON wants EMRA to issue an unconditional provisional license to the Project for statutory minimum of 10 years, with agreed zero cost buyout by the MENR in 2010. The provisional license would in effect be a 6 year license. ENRON also insists that the GOT (TETAS and the MENR) pay all currently outstanding arrears, totalling \$3.90 million as of October 31, 2003. After the license is issued and all investigations and audits are closed, ENRON is offering to lower electricity prices.

[1](#)4. (SBU) ENRON is considering a 25 percent price reduction (1.52 cents per kilowatt hour kWh) in the non-gas component of the power price upon reduction in the price of natural gas charged to the Project by BOTAS from approximately \$250 per million cubic (Mcm) meters to about \$170 Mcm. The combined price reduction will reduce the overall power price from 10.67 cents kWh to 7.64 cents kWh. ENRON would consider further incremental price reductions with the condition that the buyout provision be extended to 2012.

[1](#)5. (SBU) ENRON fears that the problems are escalating beyond the dispute over electricity prices. ENRON's lawyer cited a recent GOT tax audit as an example that Ankara wants to recover losses or generate revenue in addition to lowering electricity prices. GOT auditors claim that ENRON owes \$140 million in taxes, but ENRON's Turkish partner GAMMA disputes this amount, saying that ENRON does not owe anything. ENRON's lawyer complained that the tax audit was further harassment for BOT companies.

[1](#)6. (SBU) Comment. ENRON's proposal appears to be a reasonable compromise to lower electricity prices over time; however, with elections looming, politics is likely to

overshadow the GOT's eventual decision. ENRON also is offering a significant discount to the GOT in return for protection from future investigations. This could put a lot of pressure on other BOT projects to unilaterally reduce their prices. Additionally, some elements in Turkey would use this to validate their claims that electricity prices should be lowered and demand renegotiations with BOTs. End Comment.  
EDELMAN